

**PUBLIC DISCLOSURE**

FEBRUARY 22, 2002

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**WATERTOWN SAVINGS BANK**

**60 MAIN STREET  
WATERTOWN, MA 02172**

**DIVISION OF BANKS  
ONE SOUTH STATION  
BOSTON, MA 02110**

<p><b>NOTE:</b> This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its assessment area including low and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **WATERTOWN SAVINGS BANK (WSB or the bank)** prepared by the Massachusetts Division of Banks, the institution's supervisory agency, as of **FEBRUARY 22, 2002**. The Division evaluates performance in the assessment area(s), as they are defined by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00.

### **INSTITUTION'S CRA RATING: This institution is rated "High Satisfactory"**

The bank's overall CRA performance reflects management's commitment to meeting the credit needs of the assessment area. The High Satisfactory rating was based on three performance criteria: the Lending Test, the Investment Test, and the Service Test. The ratings for the three tests are identified on page 3.

Watertown Savings Bank's overall high satisfactory rating is based on the bank's performance in providing loans to low and moderate-income individuals, small businesses, especially to very small businesses and its implementation of a first-time homebuyer loan program. The bank's investment activity reflects the bank's support of community development through investments in mortgage-backed securities (MBS) which are targeted to low and moderate-income borrowers and census tracts; as well as contributions to non-profit organizations which support affordable housing and community development within the assessment area. The bank's employees provide a reasonable level of involvement in community organizations throughout the assessment area, which enhances the bank's service activities.

### **LENDING, INVESTMENT, AND SERVICE TEST TABLE**

The following table indicates the performance level of Watertown Savings Bank, Watertown, Massachusetts, with respect to the lending, investment, and service tests.

<b>PERFORMANCE TESTS WATERTOWN Savings Bank</b>			
<b>Performance Levels</b>	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	<b>X</b>	<b>X</b>	<b>X</b>
Satisfactory			
Needs to Improve			
Substantial Non-Compliance			

\*Note: The Lending Test is weighed more heavily than the Service and Investment Tests when arriving at an overall rating.

## **PERFORMANCE CONTEXT**

### **DESCRIPTION OF INSTITUTION**

Watertown Savings Bank is a community-based mutual savings bank headquartered in Watertown, Massachusetts and incorporated under the laws of the Commonwealth in 1870.

The institution maintains eight offices in Massachusetts, including the main office located at 60 Main Street in Watertown. All of the branch locations offer walk-up automated teller machines (ATMs). Two of the branch offices offer drive-up banking facilities. On May 14, 2001, the bank opened a new branch in the City of Waltham. The bank also operates one cash-dispensing machine at 11 Mt. Auburn St. in Watertown.

According to the December 31, 2001 FDIC Call Report, Watertown Savings Bank had total assets of \$894,112,000; of which loans represented \$373,628,000 or 41.8 percent of total assets. As of that date, the bank had total deposits of \$746,828,000. Approximately, 97.5 percent of the bank's loan portfolio is in real estate loans, with 82.7 percent of those loans secured by 1-4 family real estate. The bank maintains approximately 7.5 percent of its loan portfolio in commercial real estate and 1.5 percent in commercial and industrial loans. Refer below to the bank's loan portfolio by type.

**Loan Portfolio Composition**

<b>Loan Type</b>	<b>Amount (000s)</b>	<b>Percent</b>
One to Four-Family Residential Mortgages	\$286,460	76.7
Commercial Real Estate	\$28,046	7.5
Equity Lines of Credit (1-4 family)	\$22,545	6.0
Multifamily Loans (5 or more)	\$16,908	4.5
Construction and Land Development	\$10,597	2.8
Commercial and Industrial	\$5,867	1.5
Consumer Loans	\$3,793	1.0
Less: Unearned Income	<\$588>	-
<b>Total Gross Loans</b>	<b>373,628</b>	<b>100.0</b>

Source: December 31, 2001 Consolidated Report of Condition.

A significant portion of the bank's assets is comprised of mortgage-backed securities (MBS). As of December 31, 2001 MBS accounted for \$288,256,000 or 36.3 percent of total assets. These investments are issued or are guaranteed by the Government National Mortgage Corporation (Ginnie Mae), the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac). Although not considered a credit activity of the bank, investments in lending programs of this sort may benefit low and moderate-income borrowers and veterans.

The bank currently offers a variety of residential, consumer and commercial credit products. These products include the following: first mortgage loans on one-to-four-family and non-owner occupied dwellings; commercial loans; first time homebuyer loans; second mortgage loans; home equity loans; construction and rehabilitation loans; unsecured signature loans; secured and unsecured installment loans; and automobile loans. The bank also offers numerous deposit services for consumers and businesses.

Residential mortgages are generally underwritten to conform to secondary market requirements. However, unlike other area banks, WSB retains all mortgage loans in its portfolio. This reflects the bank's commitment to serve its assessment area as a community bank.

Watertown Savings Bank operates in a very competitive business environment and has competition from several financial institutions within its assessment area. These financial institutions include but are not limited to the following: Belmont Savings Bank, Chart Bank, Auburndale Bank, Newton South Co-operative Bank as well as representatives of regional and national mortgage companies. The market influence from these institutions appears to be significant, and as a result, serves to keep the bank's rates and services offered competitive.

Market share data for 2000 obtained from PCI Services, Inc. CRA WIZ (the most recent data available) indicates that among the 320 lenders in the assessment area, the bank was ranked sixth with 3.4 percent of the market share in total loans originated within its assessment area. Sovereign Bank was ranked number one in total loans originated or purchased with 9.7 percent of the market share.

Watertown Savings Bank maintains a CRA Committee. The bank's CRA Committee is comprised of the President & CEO, Senior Vice President of Lending, four Trustees and two Corporators. The CRA Committee meets semi-annually and is responsible for overseeing the bank's CRA and fair lending efforts.

There are no financial or legal impediments that would limit the bank's ability to meet the credit needs of the assessment area. Watertown Savings Bank's performance under the Community Reinvestment Act (CRA) was assigned an "Outstanding " CRA rating at the previous FDIC examination dated March 8, 2000. The Commonwealth of Massachusetts Division of Banks assigned a rating of "Outstanding" at its examination dated February 18, 1999.

## DESCRIPTION OF ASSESSMENT AREA

### Overview

The Community Reinvestment Act (CRA) requires financial institutions to define an assessment area within which its CRA performance will be evaluated. The Office of Management and Budget has established Metropolitan Statistical Areas (MSAs) for statistical reporting purposes by federal agencies. The bank's assessment area contains the towns of Belmont and Watertown and the cities of Newton and Waltham located within Middlesex County. All of the cities and towns are located in the Boston Metropolitan Statistical Area (MSA).

The assessment area contains 44 census tracts including 4 designated as moderate-income, 22 as middle-income, and 18 as upper-income.

Housing information obtained from CRA WIZ, based on 1990 census data, indicates that there are 76,936 housing units within the assessment area, of which 54.7 percent are owner-occupied. Most of the units are located in middle and upper-income census tracts. The assessment area contains a total population of 198,467 individuals. Approximately 5.0 percent of the total households in the assessment area are reported to be below the poverty level. The table below provides further demographic information.

<i>Selected Housing Characteristics by Income Category of the Geography</i>						
<i>Geographic Income Category</i>	<i>Percentage</i>					
	<i>Census Tracts</i>	<i>Households</i>	<i>Housing Units</i>	<i>Owner- Occupied</i>	<i>Rental Units</i>	<i>Vacant Units</i>
<i>Low</i>	0.0%	17.6%	0.0%	0.0%	0.0%	0.0%
<i>Moderate</i>	9.1%	13.6%	6.5%	2.5%	11.7%	10.3%
<i>Middle</i>	50%	18.9%	56.9%	49.6%	66.2%	57.7%
<i>Upper</i>	40.9%	49.9%	36.6%	47.9%	22.1%	32.0%
<i>Total</i>	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: 1990 U.S. Census

The housing stock in the assessment area is predominantly 1-4 family owner occupied housing units (80.8 percent). Much of the area's housing stock was built prior to 1960. The median housing value in the assessment area based on 1990 census data is \$246,669. However, a more accurate figure was obtained from the year-to-date 2002 housing statistics from the March 18, 2002 Bankers and Tradesman. According to this publication, the year-to-date median housing values in the communities served by the bank are \$546,400 in Belmont, \$437,000 in Newton, \$322,950 in Watertown, and \$317,325 in Waltham.

Watertown's residential areas are built-up, primarily composed of older two-to-four unit structures. Renters occupy the majority of all housing units. Non-residential areas in Watertown include retail shopping centers and areas with small retail shops. Waltham has a diverse housing stock, with dense multi-family housing in the southern section of the city and larger lot single-family housing in the northern section. In contrast to Watertown and Waltham, the City of Newton and the Town of Belmont are considered affluent suburban communities. Residential areas primarily consist of older, single family homes that are owner-occupied and relatively higher in cost due to the convenient location between Boston and Interstate Route 95/128.

As part of the examination, community contacts are conducted to determine if there are any areas in need of assistance from local financial institutions, and to verify if the institutions are meeting the credit needs of the community. The community contact conducted during this examination provided relevant information on the assessment area. The contact was conducted in Watertown at an organization, which primarily focuses on affordable housing. The contact felt that affordable housing was the greatest need in Watertown.



## **LENDING TEST**

The institution's Lending Test performance was rated an overall "High Satisfactory". The institution's lending efforts are rated under the seven major performance criteria: Lending Activity, Geographic Distribution, Borrower Characteristics, Community Development Lending, Innovative or Flexible Lending Practices, Fair Lending, and Loss of Affordable Housing. The following information details the data compiled and reviewed, as well as conclusions on the bank's performance.

### **Scope of Evaluation**

The lending test evaluates an institution's record of helping to meet the credit needs of its assessment area based on an analysis of its residential mortgage, small business, and community development loans. Residential mortgage and small business loans originated during 2000 and 2001 were included in the bank's performance.

### **I. Lending Activity**

Watertown Savings Bank's (WSB's) lending activity and record of extending credit were reviewed during the examination.

The bank's lending level reflects a good responsiveness to the assessment area's credit needs. Watertown Savings Bank had total assets of \$894.1 million as of December 31, 2001. Net loans totaled \$371.3 million or 41.5 percent of total assets. Lending on one-to-four family residential mortgages remains the largest portion of the bank's loan portfolio followed by commercial real estate loans and multi-family residential loans.

The bank's net loans and leases as a percent of assets, was 46.0 percent as reported in the September 30, 2001, Uniform Bank Performance Report (UBPR). The peer group's net loan to asset ratio was 65.3 percent, placing the bank in the tenth percentile. The bank's ratio is lower than peer; however, it should be noted that the UBPR determines a peer ratio based on similarly sized banks nationwide without regard to regional or state differences.

The bank's net loan-to-deposit ratio was 53.6 percent on December 31, 1999 and declined to 49.7 percent on December 31, 2001. This decrease was due in part to deposits increasing by 42.6 percent while loans increased by 32.9 percent. However, the bank has experienced significant growth in its loan portfolio due to the refinance activity in the market. In addition, the bank also experienced significant deposit growth that is attributed to the inflow of deposits from customers migrating from larger regional financial institutions.

## Distribution of Loans Inside and Outside the Assessment Area

### *HMDA-Reportable Loans*

During the period reviewed, the bank originated 732 HMDA-reportable loans totaling \$162 million. Of this amount, 500 loans, or 68.3 percent of the number totaling \$108 million or 66.3 percent of the dollar volume were originated in the bank's assessment area.

By number, Watertown accounted for the largest number of originations with 48.0 percent, followed by Waltham with 29.4 percent. Watertown also accounted for the largest dollar volume of originations with 47.1 percent, followed by Waltham with 24.7 percent. Refer to the following table for the breakdown of loans by year.

Distribution of Home Mortgage Loans Inside and Outside of the Assessment Area								
Year	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
<b>2000</b>	172	65.4	37,331	64.4	91	34.6	20,629	35.6
<b>2001</b>	328	69.9	70,478	67.4	141	30.1	34,051	32.6
<b>Total</b>	500	68.3	107,809	66.3	232	31.7	54,680	33.7

Source: HMDA/LAR, CRA Wiz

In 2000, WSB ranked sixth in market share out of 320 HMDA reportable lenders in the assessment area. The bank originated 172 loans in the assessment area giving the bank a 3.4 percent market share. The top 3 lenders in the assessment area were Sovereign Bank with 495 loans and a 9.7 percent share of the market; BankBoston N.A. with 355 loans and a 6.9 percent share of the market; and Washington Mutual Bank with 240 loans and a 4.7 percent share of the market.

### *Small Business Lending*

For purposes of this loan analysis, a small business loan is defined as "a loan with an original amount of \$1 million or less that is: secured by non-farm nonresidential properties; or commercial and industrial loans to US addresses, as defined in the FDIC Call Report Instructions." The bank originated 141 small business loans totaling \$19.0 million, during this period. A total of 108 loans totaling \$15.4 million were originated to businesses within the bank's assessment area, representing 76.6 percent by number and 80.7 percent by dollar volume.

Refer to the following table for the distribution of small business loans inside and outside the assessment area.

Distribution of Small Business Loans Inside and Outside of the Assessment Area								
Year	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
<b>2000</b>	64	86.5	8,496	88.1	10	13.5	1,147	11.9
<b>2001</b>	44	65.7	6,871	73.1	23	34.3	2,523	26.9
<b>Total</b>	108	76.6	15,367	80.7	33	23.4	3,670	19.3

Source: CRA Data Collection

The bank's distribution of HMDA-reportable and small business loans inside the assessment area is considered reasonable based on its size and strong local competition.

## II. Geographic Distribution Census Tract Income Level

HMDA-reportable and small business loans located within the bank's assessment area were further analyzed to determine their location by census tract income level.

### *HMDA-Reportable Loans*

The following table provides a breakdown, by number, of the bank's HMDA-reportable loans within its assessment area according to census tract income level. The table also shows the number of loans in comparison to the number of owner-occupied housing units in each census tract income category.

Distribution of HMDA Loans by Income Category of the Census Tract								
Census Tract Income Level	% Total Owner-Occupied Housing Units	Aggregate Lending Data (% of #)	2000		2001		Total	
			2000	#	%	#	%	#
<b>Moderate</b>	2.5	4.5	10	5.8	10	3.1	20	4.0
<b>Middle</b>	49.6	50.6	143	83.1	282	85.9	425	85.0
<b>Upper</b>	47.9	44.9	19	11.1	36	11.0	55	11.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>172</b>	<b>100.0</b>	<b>328</b>	<b>100.0</b>	<b>500</b>	<b>100.0</b>

Source: U.S. Census, HMDA LAR, HMDA Aggregate Data

According to the analysis, 4.0 percent of the bank's total HMDA-reportable loans for 2000, and year to date 2001 were originated within moderate-income census tracts. This distribution is higher than the percentage of owner-occupied housing units and reflects the bank's willingness to lend in the moderate-income tracts within the assessment

area. In addition, the bank originated at least one loan in each of the four moderate-income tracts.

The geographic distribution of the bank's loans by census tract income category was also compared to that of all other HMDA-reporting lenders in the assessment area. Other HMDA-reporters include bank and non-bank entities such as large national banking companies, other local banks, credit unions and mortgage companies. The most recent data available for this analysis relates to calendar year 2000.

As demonstrated above, the percentage of the bank's lending in moderate-income census tracts at 5.8% exceeds the aggregate with 4.5%.

In 2000, the bank was ranked 4th in market share for lending in moderate-income census tracts within its assessment area. The bank originated 10 HMDA-reportable loans in these census tracts representing 4.35 percent of the market. The number one lender was Sovereign Bank with 16 loans or 6.96 percent.

### ***Small Business Lending***

WSB's small business loans were analyzed to determine the distribution by census tract income level within its assessment area.

The following table depicts this distribution.

<b>Distribution of Small Business Loans by Income Category of the Census Tract</b>						
<b>Census Tract Income Level</b>	<b>2000</b>		<b>2001</b>		<b>Total</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Moderate</b>	2	3.1	1	2.3	3	2.8
<b>Middle</b>	59	92.2	41	93.2	100	92.6
<b>Upper</b>	3	4.7	2	4.5	5	4.6
<b>Total</b>	<b>64</b>	<b>100.0</b>	<b>44</b>	<b>100.0</b>	<b>108</b>	<b>100.0</b>

Source: CRA Data Reports

As shown above, the majority of small business loans were originated in middle-income census tracts. Of those loans, 65 or 60.2 percent were in Watertown where the bank has most of its branches.

Based on the above data and also considering the bank's performance in residential lending in comparison to the 2000 aggregate, Watertown Savings Bank has attained a good dispersion of loans throughout the assessment area.

### III. Borrower Characteristics

The bank's residential loans were further analyzed to determine the distribution of lending by borrower income level. Borrower's reported incomes were compared to the median family income of the Boston Metropolitan Statistical Areas (MSAs). The income figures are based on estimated Department of Housing and Urban Development (HUD) information. The median family income for the Boston MSA for 2000 and 2001 is \$65,500 and \$70,000, respectively.

Low-income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate-income is defined as income between 50 percent and 79 percent of the median family income level for the MSA. Middle-income is defined as income between 80 percent and 119 percent of the median income. Upper-income is defined as income equal to or greater than 120 percent of the median income.

#### ***HMDA-Reportable Loans***

The following table describes the number of HMDA-reportable loans granted to low, moderate, middle and upper-income borrowers in comparison to the number of households in the assessment area in each respective income group.

Distribution of HMDA Loans by Borrower Income								
Median Family Income Level	% Total Households	Aggregate Lending Data (% of #)	2000		2001		Total	
			2000	#	%	#	%	#
Low	17.6	2.3		3	1.7	23	7.0	26
Moderate	13.6	7.9		34	19.8	72	22.0	106
Middle	18.9	14.8		41	23.8	81	24.7	122
Upper	49.9	49.9		86	50.0	134	40.9	220
NA	-	25.1		8	4.7	18	5.4	26
Total	100.0	100.0		172	100.0	328	100.0	500

Source: U.S. Census, HMDA LAR, HMDA Aggregate Data

In 2000 and 2001, WSB extended 26 loans to low-income borrowers representing 5.2 percent of the total loans originated within the assessment area during this period. This is well below the 17.6 percent of low-income households within the assessment area. However, this can be attributed to the fact that approximately 5.2% of the households in the assessment area live below the poverty level. These are households for whom homeownership opportunities may be limited. Another mitigating factor is the high cost associated with purchasing a home in the assessment area, which makes homeownership difficult for many individuals.

WSB originated 106 loans to moderate-income borrowers, representing 21.2 percent of the total originations within the assessment area. This percentage is higher than the 13.6 percent of households within the assessment area that are moderate-income.

The distribution of the bank's loans among various borrower income levels may also be compared to that of all other HMDA-reporting lenders in the assessment area. As previously mentioned, other HMDA-reporters include bank and non-bank entities such as large national banking companies, other local banks, credit unions and mortgage companies. The most recent data available for this analysis relates to calendar year 2000.

WSB's percentage of loans to low-income borrowers is slightly below that of the aggregate for 2000. The bank originated 1.7 percent of its loans within the assessment area to low-income borrowers, while the aggregate granted 2.3 percent. However, the bank's level of HMDA-reportable lending to moderate-income borrowers is excellent and accounted for 19.8 percent of the loans, outperforming the aggregate with 7.8 percent.

WSB ranked 3rd in market share in lending to low and moderate-income individuals in the assessment area in 2000. The bank originated 37 loans to low and moderate-income borrowers capturing 6.8 percent of the market. The top two lenders were BankBoston N.A. with 7.9 percent and Washington Mutual Bank with 7.0 percent.

### ***Small Business Lending***

The small business loans originated within the bank's assessment area were further analyzed to determine the typical loan amount at origination. The majority of the 108 small business loans originated had original loan amounts of \$100,000 or less (64.8%). The following table depicts the distribution of the loans by loan amount at origination.

<b>Distribution of Small Business Loans by Loan Size</b>						
<b>Loan Size (000s)</b>	<b>2000</b>		<b>2001</b>		<b>Total</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>&lt; =\$100</b>	42	65.6	28	63.6	70	64.8
<b>&gt;\$100 - &lt;=\$250</b>	9	14.1	8	18.2	17	15.7
<b>&gt; \$250 - &lt;=\$1,000</b>	13	20.3	8	18.2	21	19.5
<b>Total</b>	<b>64</b>	<b>100.0</b>	<b>44</b>	<b>100.0</b>	<b>108</b>	<b>100.0</b>

Source: CRA Data Reports

By dollar amount, 13.3 percent of the loans had amounts less than or equal to \$100,000 and 18.7 percent had loan amounts between \$100,000 and \$250,000. The remaining 68.0 percent had loan amounts greater than \$250,000.

The small business loans were also analyzed to determine the distribution among businesses of various sizes. The majority of the loans originated were granted to small businesses whose annual revenues were \$1 million or less. The following table depicts

the distribution of small business loans within the bank's assessment area by revenues of the business.

<b>Distribution of Small Business Loans by Gross Annual Revenues of Business</b>						
<b>Gross Annual Revenues (000s)</b>	<b>2000</b>		<b>2001</b>		<b>Total</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>&lt;= \$1,000</b>	47	73.4	33	75.0	80	74.1
<b>&gt; \$1,000</b>	17	26.6	11	25.0	28	25.9
<b>Total</b>	<b>64</b>	<b>100.0</b>	<b>44</b>	<b>100.0</b>	<b>108</b>	<b>100.0</b>

Source: CRA Data Reports

The bank's lending to borrowers of different income levels, especially those of moderate-income, and businesses of various sizes, reflects a good performance.

#### **IV. Community Development Lending**

As defined in the CRA regulation, a community development loan has as its primary purpose: affordable housing for low and moderate-income individuals, community services targeted to low and moderate-income individuals, activities that promote economic development by financing small businesses or small farms, or activities that revitalize or stabilize low and moderate-income geographies. In addition, unless for a multifamily dwelling (five or more units), the loan must not be reported as a home mortgage or small business loan.

The bank's community development lending is less than adequate for an institution of its size and resources.

On August 11, 2000 and September 28, 2000, WSB granted \$268,000 and \$316,000 respectively as construction loans to a non-profit organization to construct affordable housing in Watertown. Proceeds from the loan are being used for construction of a two-unit condominium to be sold to low-income first time homebuyers.

#### **V. Innovative or Flexible Lending Practices**

##### ***First-Time Homebuyer Program***

WSB continues to offer an in-house First-Time Homebuyer Program. The program applies to one-to-four family, owner-occupied properties located within the bank's assessment area. The product offered is a 5/1 adjustable-rate mortgage that remains fixed for the first five years then adjusts every year thereafter. The features include a five-percent downpayment option with mortgage insurance; flexible underwriting criteria;

housing-to-income and total debt-to-income ratios of 33 and 38 percent, respectively; and a \$500 rebate towards already reduced closing costs. WSB extended 71 loans totaling \$14.6 million in 2000 and 89 loans totaling \$19.9 million in 2001. Although this program has flexible underwriting criteria, it should be noted that a number of these loans are to middle- or upper-income borrowers.

### ***Home Improvement Loan Program***

Since December 1999, the bank has committed \$500,000 to the Town of Watertown's Department of Community Development and Planning for its home improvement program. Under this program, elderly residents will be able to acquire home improvement loans at repayment terms that will be flexible to accommodate the borrower. To date, no money has been expended under this program.

### ***Municipal Mortgage Program***

During 2001, the bank in partnership with MassHousing introduced the Municipal Mortgage Program. Under this program, the bank offers 100% financing to qualified borrowers who are full time municipal employees and who wish to purchase a single family home or condominium in the city/town where they work. Terms include ¼% lower interest rate than standard interest rates, lower attorney fees, first time home buyer credit of \$500 and flexible underwriting ratios of 33%/41%. One loan closed on January 31, 2002 for \$245,000.

## **VI. Fair Lending Policies and Practices**

WSB's fair lending information was reviewed to determine how it relates to the guidelines established by Regulatory Bulletin 2.3-101, the Division's Community Reinvestment and Fair Lending Policy.

Bank management ascertains the credit needs of the assessment area through their involvement in several area organizations and programs. WSB markets its services and products to the community through a variety of media including print, television, radio, and the Internet. Seminars are also conducted in order to make potential customers aware of the services the bank provides.

The bank has established a formal Second Review Program that requires all residential real estate-related applications that are slated for denial to be reviewed by the Fair Lending Review Committee. The purpose of the review is to ensure that all the reasons stated for the denial are substantiated. Management reviews its HMDA/LAR data on a monthly basis.



## Minority Application Flow

WSB's assessment area contains 198,467 individuals, 16,954 or 8.5 percent of whom are minorities. The assessment area's minority population is 0.1 percent Native American, 3.7 percent Asian, 1.9 percent Black, 2.7 percent Hispanic and 0.1 percent Other Race.

A review of residential loan applications was conducted in order to determine the number of applications the bank received from minorities. The bank received 562 residential loan applications from 2000 to 2001 within its assessment area. During this period, 37 applications or 6.6 percent were received from minorities. Refer to the following table for further details.

MINORITY APPLICATION FLOW								
RACE	Aggregate Data* 2000		WSB 2000		WSB 2001		WSB TOTAL	
	#	%	#	%	#	%	#	%
<i>Native American</i>	16	0.2	0	0.0	0	0.0	0	0.0
<i>Asian</i>	323	4.7	9	4.6	5	1.4	14	2.5
<i>Black</i>	72	1.0	2	1.0	4	1.1	6	1.1
<i>Hispanic</i>	117	1.7	0	0.0	1	0.3	1	0.2
<i>Joint Race</i>	94	1.4	4	2.1	7	1.9	11	2.0
<i>Other</i>	88	1.2	3	1.6	2	0.5	5	0.8
<b>Total Minority</b>	<b>710</b>	<b>10.2</b>	<b>18</b>	<b>9.3</b>	<b>19</b>	<b>5.2</b>	<b>37</b>	<b>6.6</b>
<i>White</i>	3,803	54.8	165	85.1	338	91.8	503	89.5
<i>NA</i>	2,430	35.0	11	5.6	11	3.0	22	3.9
<b>Total</b>	<b>6,943</b>	<b>100.0</b>	<b>194</b>	<b>100.0</b>	<b>368</b>	<b>100.0</b>	<b>562</b>	<b>100.0</b>

\*Source: PCI Services, Inc., CRA Wiz Software.

The bank's minority application flow for this review period was compared with the racial make-up of the assessment area and fell slightly below the racial composition. In addition, the application flow was compared to the 2000 aggregate data for all other HMDA reporters within the assessment area. The bank's performance also fell below the aggregate, which made 10.2 percent of all loans to minorities. WSB's minority application flow appears to be low, given the racial composition of its assessment area.

## VII. Loss of Affordable Housing

The bank's participation in community development projects along with its development of credit products with flexible lending criteria has assisted low and moderate-income individuals to remain in their neighborhoods.

## CONCLUSION (Lending Test)

Taking into account the number and amount of HMDA-reportable and small business loans in its assessment area, Watertown Savings Bank has demonstrated a good

responsiveness to the assessment area's credit needs. The majority of the bank's loans are made within its assessment area. The bank's lending also demonstrates a good dispersion of loans among census tracts of different income levels. The bank is 4<sup>th</sup> in its market in lending within low and moderate-income census tracts within its assessment area. The bank has a good record of serving the credit needs of low and moderate-income individuals and businesses with gross annual revenues of \$1 million or less. The institution has granted a marginal level of community development loans while it has developed and/or participated in an acceptable number of flexible and government lending programs. In addition, the bank's fair lending performance was found to be satisfactory at this time. Therefore, the institution's lending performance receives an overall rating of High Satisfactory.

## **INVESTMENT TEST**

As defined under the CRA regulation, a qualified investment is a lawful investment, deposit, membership share or grant that has community development as its primary purpose. Community development includes affordable housing for low and moderate-income individuals, community services targeted to low and moderate-income individuals, activities that promote economic development by financing small businesses or small farms, and activities that revitalize or stabilize low and moderate-income geographies. In recognition of the many legal limitations on bank investments, and the long-term nature and complexity of many community development investments, the CRA regulation allows some reasonable consideration for the entire bank portfolio of qualified investments; not just those made since the previous CRA examination.

### ***Investments***

As of December 31, 2001 Mortgage Backed Securities (MBS) accounted for \$288,256,000 or 36.3 percent of total assets. Of these MBS, \$1,292,000 are in investments either guaranteed or issued by the Federal Housing Administration (FHA) or The Veterans Administration and qualify as community development investments. These investments fund lending programs that benefit low and moderate-income borrowers and veterans within the Commonwealth of Massachusetts, a greater geographic region.

### ***Charitable Contributions and Grants***

WSB has provided qualified charitable contributions and grants to organizations that provide affordable housing, youth programs, food pantries and health and human services for low and moderate-income individuals in the assessment area. In 2000 and 2001, the bank provided \$51,644 and \$37,098, respectively, in qualified contributions and grants. Examples of recipient organizations are described below.

- **Watertown Community Housing (WCH):** WCH is a nonprofit Community Development Corporation (CDC) created to preserve and develop affordable housing.

- **Waltham Alliance to Create Housing (WATCH):** WATCH is a non-profit Community Development Corporation (CDC) founded in 1988 to preserve and promote affordable housing and economic opportunities for low and moderate-income residents of Waltham.
- **Boys & Girls Club:** This organization provides community services for local youths, many of which are from low and moderate-income families. WSB made contributions to the Boys & Girls Clubs of Watertown, Waltham and Newton
- **Beaverbrook Step Inc:** This organization is located in Watertown and provides housing and other services to developmentally disabled individuals.
- **Homeowners Options for Massachusetts Elders:** This organization assists Massachusetts' elders through counseling and access to reverse mortgages to remain in their homes. Counseling and services are provided statewide.
- **Marshall Home:** This home provides retirement living with assisted living services to low and moderate-income elderly individuals.

In addition to the above organizations, Watertown Savings Bank made donations to food pantries and consumer credit counseling services.

## **Donations**

Watertown Community Housing (WCH) is a nonprofit Community Development Corporation (CDC) created to preserve and develop affordable housing. WSB provided WCH with a desktop computer and printer in 2000. The bank also paid for the postage of 600 pieces of mail for the Quimby Street Condominiums project in December 2000.

## Customer Choice Awards

WSB prides itself on its support for community organizations through annual "customer choice awards", which enables bank customers to vote on which organizations receive bank donations. Most of the organizations that receive votes from the bank's customers are not community development organizations; however this distinctive approach permits a wide variety of community groups to receive donations from the bank. The bank donated \$35,000 in 2000 and \$50,000 in 2001, respectively through these customer choice awards. Of these amounts, \$13,156 and \$16,298 respectively are included in the above qualified contributions and grants. Community development organizations which were considered include Watertown Community Housing, Beaverbrook Step Inc., Salvation Army, Watertown Food Pantry, St. Patrick's Food Pantry, St. Vincent de Paul, Watertown Senior Center, Marshall Home and Boys and Girls Club of Watertown and Newton.

## **CONCLUSION (Investment Test)**

As depicted above, Watertown Savings Bank has demonstrated a good responsiveness to the assessment area's credit and community economic development needs. Given the bank's resources and level of investment opportunities in the assessment area, the bank's investment performance is rated High Satisfactory.

## **SERVICE TEST**

The Service Test evaluates an institution's record of helping to meet the credit needs of its assessment area by analyzing both the availability and effectiveness of an institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The following describes the institution's services.

### ***Retail Banking Services***

WSB currently maintains seven full service branches in addition to its main office, all located in middle-income census tracts. Two of the branches are located in Belmont and Waltham. The remaining branches are scattered throughout Watertown serving the residents, employees and businesses throughout Watertown. All branches have bilingual staff.

Branch hours are considered convenient and comparable to other local institutions, and services of the bank appear sufficient to meet the needs of the assessment area. Hours of operation vary with each office, but all offices have extended hours. Each office also offers Saturday hours, with the exception of the branch located at 321 Arsenal Street in Watertown.

### ***Record of Opening & Closing Branches***

WSB maintains a branch closing policy. This policy outlines procedures to be followed should the decision be made to close an office. The bank has never closed a branch office. The bank opened a full service branch located at 6 Lexington Street in Waltham on May 14, 2001.

### ***Alternative Banking Services***

The bank maintains ATMs at all of its full service offices and one additional free-standing ATM in Watertown. In addition, drive-up teller windows are provided at two of the Watertown branches. The ATMs are linked to the NYCE, CIRRUS and SUM networks. There is a \$1.00 fee for transactions made at non-WSB ATMs excluding banks that are members of the Sum Network.

WSB offers a VISA CheckCard, which can be used to purchase goods and services at any establishment or terminal that displays the VISA logo. These transactions are deducted automatically from the customer's checking account. This card can also be

used to transfer funds and make deposits or withdrawals at any WSB ATMs. There is no fee charged to customers for the usage of this card.

The bank provides a “Touch Tone Banking” service, which offers 24-hour access to customers’ accounts. Through this service, customers can check balances, transfer funds and obtain current interest information.

Bank-by-mail services are available for deposits and withdrawals. The bank provides customers with pre-addressed and pre-paid postage envelopes.

WSB’s Web Site: [www.watertownsavings.com](http://www.watertownsavings.com) provides a variety of information such as branch locations and hours, personal and commercial banking services and current interest rates. The web site also offers a demonstration or enrollment for [wsb@home](mailto:wsb@home). [Wsb@home](mailto:wsb@home) allows the customer to check balances, reconcile checking accounts, transfer funds and prepare personal financial reports. In addition, unlimited online bill payments are offered for a \$5.00 monthly fee.

As of September 2000, the bank has participated in the “Savings Makes Cents” program sponsored by the Massachusetts State Treasurer’s Office. This program’s purpose is to educate students on the basics of money management and to encourage savings. At the present time, the bank is offering this program to three grammar schools in Watertown and one grammar school in Waltham.

The bank employs 31 bilingual employees. Languages spoken by bank personnel include Russian, Armenian, Cambodian, Portuguese, Spanish, Greek, Creole, Hindi, Italian, Turkish, Kurdish, Arabic and French.

### ***Other Retail Services***

WSB is a participant in the Massachusetts Community and Banking Council's (MCBC) Basic Banking Program. The program’s purpose is to encourage financial institutions to offer low-cost checking and savings accounts for people with modest incomes. The bank participates by offering the following low cost checking and savings accounts:

- **Unlimited Checking:** This checking account has no minimum balance requirement and charges a monthly fee of \$3.00 (no fee with direct deposit). An ATM card is available with the account and a \$1.00 fee is charged for any non-WSB ATM transactions.
- **Basic Savings:** The Passbook and Statement Savings Accounts both have a \$10.00 minimum balance requirement and no monthly fees. An ATM card is available with the Statement Savings Account and a \$1.00 fee is charged for any non-WSB ATM withdrawals.

## **COMMUNITY DEVELOPMENT SERVICES**

The CRA regulation defines a community development service as a service that is primarily for community development purposes and is related to the provision of financial services. Detailed below are the bank's qualified community development services.

### ***Involvement in Community Organizations***

**Watertown Housing Partnership (WHP):** WHP is designed to increase the number of affordable housing units in the Town of Watertown. The bank's Senior Vice President serves as a member of the WHP.

**Watertown Community Housing, Inc. (WCH):** WCH is a nonprofit Community Development Corporation (CDC) created to preserve and develop affordable housing. The bank's Assistant Vice President serves as the Clerk of the WCH.

**Boys & Girls Club:** This organization provides community services for local youths many of who are from low and moderate-income families. The bank's Senior Vice President is a board member and also serves on the Finance Committee.

### ***Educational Seminars***

Watertown Savings Bank participated in three First Time Homebuyer courses sponsored by Watertown Community Housing, Inc in 2000. Attendees earned an MHFA Homebuyer Certificate, and income qualified applicants were eligible for zero percent down payment for first-time home purchases in Watertown.

## **CONCLUSION (Service Test)**

As illustrated above, officers and employees of Watertown Savings Bank demonstrated a fair level of involvement in community organizations throughout its assessment area. However, the bank's products and services are well tailored to the convenience and needs of the assessment area. Therefore, a rating of High Satisfactory is assigned.

## **APPENDIX A**

### **SCOPE OF EXAMINATION**

Watertown Savings Bank has one assessment area, which was reviewed using the examination procedures for large institutions. There are four cities and towns in the assessment area. All are located in the Boston Metropolitan Statistical Area.

The CRA evaluation included HMDA-reportable loans and small business loans. The time period used was January 1, 2000 to December 31, 2001. All loans recorded on the 2000 and 2001 HMDA/LAR were included in the evaluation of the bank's lending performance. In addition, all loans recorded on the 2000 and 2001 Small Business Loan Registers (as defined under the data collection requirements of the CRA regulation) were included in the evaluation of the bank's lending performance.

Internal analysis generated by management was reviewed during the examination, as was comparative data for the assessment area obtained from CRA WIZ. The examination also included a review of the bank's Public File, which contained no negative CRA-related comments.

# THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

## WATERTOWN SAVINGS BANK

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **February 22, 2002**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors/Trustees

Dated at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 20 \_\_\_\_



# PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that area shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction, and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.

